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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Quarterly Period Ended September 30, 2003

Commission File Number 001-31825

The First Marblehead Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**04-3295311** (I.R.S. Employer Identification No.)
30 Little Harbor, Marblehead, Massachusetts (Address of Principal Executive Offices)	**01945** (Zip Code)

Registrant's telephone number, including area code: **(781) 639-2000**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No ☒

As of November 5, 2003, the registrant had 61,684,010 shares of Common Stock, $0.01 par value per share, outstanding.

THE FIRST MARBLEHEAD CORPORATION

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Part I. Financial Information

activities during the period. The use of cash for financing activities was payments under the notes that we issued to TERI in connection with the loan processing operations acquisition.

We expect that our capital expenditure requirements for fiscal 2004 will be approximately $3.0 million. We expect to use these funds primarily for the purchase of computer and office equipment as well as leasehold improvements to our corporate headquarters. We currently have capital expenditure commitments over the next 12 months of approximately $1.8 million.

Borrowings

In June 2001, we issued two acquisition notes to TERI totaling $7.9 million to acquire TERI's loan processing operations as well as its workforce-in-place. Principal and interest at an annual rate of 6% is payable on these notes in 120 monthly payments of $87,706 commencing on July 20, 2001 and ending on June 20, 2011. At September 30, 2003, outstanding principal on these notes totaled $6.5 million as compared to $6.7 million at June 30, 2003.

In addition, in June 2001, we borrowed $5.5 million from stockholders and certain affiliates of a stockholder to supplement the financing of the acquisition of TERI's loan processing operations and for working capital purposes. These notes were due to mature on May 30, 2004, with interest payable quarterly at an annual rate of 10% of the current principal balance. We were required to pay additional interest at a rate of 15% of the outstanding balance as of June 1 of the previous year each May 30 until maturity. We repaid these notes in full on May 30, 2003.

Effective April 24, 2002, we entered into a $975,000 revolving line of credit with a bank, none of which was outstanding on September 30, 2003 or June 30, 2003. The line of credit has been extended to December 31, 2003, with interest payable annually at the greater of 6% or 1% above the highest published *Wall Street Journal* prime rate. A member of our board of directors is a director and majority stockholder of the company that owns the bank that provided this line of credit. We believe that the terms of the line of credit are substantially the same as those prevailing at the time we entered into this credit arrangement as we would have received from other banks for a comparable transaction. We do not expect to renew this revolving line of credit.

On August 28, 2003, we entered into a $10 million revolving credit facility with Fleet National Bank. The revolving credit facility matures on August 28, 2005, with interest currently payable, at our option, at the bank's prime rate or the London Interbank Offered Rate, or LIBOR, plus 2%. The revolving credit line contains financial covenants, including:

- minimum trailing 12-month up-front structural advisory fees of not less than $25 to 30 million;
- minimum tangible net worth of not less than $40 million through June 30, 2004 and the sum of 100% of consolidated tangible net worth plus 85% of consolidated net income, thereafter;
- a maximum liabilities to net worth ratio of not greater than 1.15 to 1.00; and
- a minimum cash flow to debt service ratio of not less than 1.50 to 1.00,

as well as certain financial reporting covenants. We expect to be able to meet these financial and reporting requirements during the term of the revolving credit facility and are currently in compliance with these covenants. This agreement restricts our ability to pay cash dividends in the event we are in default. As of September 30, 2003, we had $6.5 million outstanding under the revolving credit facility. The maximum annual commitment fee is $25,000. The bank has issued on our behalf three irrevocable letters of credit in the aggregate amount of $943,000 in lieu of security deposits for the sublease of office space. The third party beneficiaries have not drawn upon this revolving credit facility. These letters of credit reduce the amount we may borrow under this revolving credit facility.

Short-term Funding Requirements

We expect to fund our short-term liquidity requirements through cash flow from operations and a portion of the proceeds of our initial public offering, which we closed on November 5, 2003. We believe, based on our current operating plan and the proceeds of our initial public offering, that our current cash and other short-term investments will be sufficient to fund our operations for the foreseeable future. In addition, we may use our credit facility as a source of short-term liquidity if the need arises.

Long-term Funding Requirements

We expect to fund the growth of our business through cash flow from operations and through issuances of common stock, promissory notes or other securities. We expect to assess our financing alternatives periodically and access the capital markets opportunistically. If our existing resources are insufficient to satisfy our liquidity requirements, or if we enter into an acquisition or strategic arrangement with another company, we may need to sell additional equity or debt securities. Any sale of additional equity or debt securities may result in additional dilution to our stockholders, and we cannot be certain that additional public or private financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain this additional financing, we may be required to delay, reduce the scope of, or eliminate one or more aspects of our business development activities, which could harm the growth of our business.

From our inception, we have raised approximately $144.9 million from the sale of common stock and promissory notes, including approximately $117.6 million in net proceeds from our initial public offering after underwriting discounts but before offering expenses payable by us.

Our actual liquidity and capital funding requirements may depend on numerous factors, including:

- our facilities expansion needs;
- the extent to which our services gain increased market acceptance and remain competitive; and
- the costs and timing of acquisitions of complementary businesses.

If we are not able to obtain adequate funding when needed, we may have to delay further expansion of our business.

Application of Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions.

Our significant accounting policies are more fully described in Note 2 of the notes to consolidated financial statements included in exhibit 99.1 to this quarterly report, which includes a summary of the accounting policies we use in preparing our consolidated financial statements. On an ongoing basis, we evaluate our estimates and judgments, particularly as they relate to accounting policies that we believe are most "critical"—that is, those that are most important to the portrayal of our financial condition and results of operations. These require our most difficult, subjective and complex judgments, often requiring us to make estimates about the effect of matters that are inherently uncertain. These accounting policies involve the recognition and valuation of our service revenue related to the